



California State Association of Counties  
1100 K Street, Suite 101  
Sacramento, CA 95814  
(916) 327-7500



County Welfare Directors Association  
925 L Street, Suite 350  
Sacramento, CA 95814  
(916) 443-1749

March 13, 2009

To: The Honorable Bill Lockyer  
California State Treasurer

Mike Genest, Director  
California Department of Finance

From: Paul McIntosh, CSAC Executive Director  
Frank Mecca, CWDA Executive Director

**Re: Calculation of Enhanced Federal Funds to Offset General Fund Spending  
Pursuant to SBX3 8 and SBX3 16**

The California State Association of Counties (CSAC) and the County Welfare Directors Association (CWDA) are writing to offer our comments on the effort to calculate the amount of federal funds that will be available to offset General Fund spending in 2008-09 and 2009-10. As you know, a number of cuts and revenue in the budget package passed in February are contingent upon receipt of \$10 billion in federal funds that may be used to offset General Fund spending by June 30, 2010.

We understand that the estimate recently released by Department of Finance (DOF) is preliminary; detailed assumptions have not been released publicly as of this date. In that vein, we offer the additional thoughts and questions to enhance your analysis and efforts to come to consensus.

**Medicaid**

The Government Accountability Office (GAO) estimates a higher Medicaid FMAP increase for California than is contemplated in the DOF estimate. Even after accounting for the FMAP funds that will go to counties and to public hospitals, the GAO estimates approximately \$7.3 billion will be available for California – all of which can be used to offset General Fund spending. However, the DOF and LAO estimate \$6.4 billion will be available.

Without the additional underlying assumptions used by the DOF to compile its FMAP estimate, we cannot understand the nearly \$1 billion difference. We urge that this detail information be made available immediately and look forward to analyzing the underlying data when they become available.

### **State Children's Health Insurance Program (SCHIP)**

The recently enacted SCHIP legislation provides opportunities for enhanced federal funds. Two examples of this increased funding include:

- States will now be able to draw down federal funding for full-scope benefits provided to newly qualified immigrants. Currently, California provides these benefits at 100 percent state costs.
- States that meet five of eight specified criteria for increasing health coverage will be eligible for uncapped, formula-driven bonus funding based on enrollment in public health coverage programs. California currently meets four of the eight criteria and will meet five of the criteria upon repeal of the mid-year status report/continuous eligibility changes for children's Medi-Cal coverage enacted in the 2008-09 budget.

### **Education**

The Legislative Analyst's Office identifies up to \$3.46 billion in federal education funds that could potentially be used to offset General Fund education expenditures. California has the option to use State Fiscal Stabilization Funds for state General Fund relief; the LAO identifies up to \$3.3 billion that could be used in 2009-10. The LAO also identifies enhanced Individual with Disabilities Education Act (IDEA) funds that could be used to offset \$144 million in state General Fund spending on state special schools and residential placements.

### **Competitive Grants**

Clearly, California will apply for and receive some portion of the competitive grants. Some of those funds may be used to offset General Fund spending. The preliminary DOF document scores no revenue from the competitive grants. We recommend that a conservative estimate of the grant amounts California is likely to receive based on past awards be included in the document – to the extent the grants can offset General Fund spending.

### **Revenue Impacts**

The preliminary DOF document does not account for revenues associated with the grant increases and infrastructure investments. Specifically:

- The federal stimulus package increases Unemployment Insurance by \$25 per week. Most – if not all of the aid – is spent and has an economic multiplier. There should be some portion of those funds that are spent on taxable goods and will benefit sales and use tax revenues.

- Similarly, the package includes a one-time emergency payment of \$250 to Supplemental Security Income (SSI) recipients, Social Security recipients, Railroad Retirement recipients, and veterans compensation or pension recipients. Californians would receive \$1.8 billion. Again, should be some portion of those funds will be spent on taxable goods and will benefit the state General Fund with increased sales and use tax revenues.
- The federal stimulus package is intended to increase jobs associated with infrastructure and new technology. To the extent that currently unemployed individuals secure jobs related to federal stimulus, personal income tax and sales and use tax revenues should increase. For example, a White House-released analysis conducted by two prominent economic advisors estimates that California stands to gain or save 369,000 jobs, many in the private sector and across various sectors of the economy, from the package.

### **Omnibus Spending Bill**

Finally, the state will receive additional funds through the omnibus spending bill enacted this week by Congress and signed by President Obama. To the extent that these funds may offset state General Fund spending, either directly or indirectly through job creation and tax increases, these funds may also contributed to the overall calculation. For example, the measure increases the federal share of cost for IDEA Part B State Grants. As more information becomes available at the federal level, we highlight this as another source of funds.

Counties, like the state, are interested in maximizing the federal revenues available to California during these difficult economic times. We encourage you to do everything possible to use as many of the new funds available from the federal stimulus package and beyond to ensure that nothing is "left on the table." In the event that future federal funds be made available, we want to ensure California continues to receive such funds.

If you have additional questions, please do not hesitate to contact us.

cc: Ana Matosantos, Chief Deputy, Department of Finance  
John Decker, Executive Director, California Debt & Investment Advisory Commission